MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BMB3044 – MONEY AND BANKING

(All sections/Groups)

11 JULY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **THREE (3)** pages with **FOUR (4)** questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) According to the statement made by Central Bank of Malaysia in May 2023, why the Monetary Policy Committee (MPC) decided for the fifth increase of the Overnight Policy Rate to 3.00 percent? Discuss how the Central of Bank of Malaysia foresees the growth momentum in Malaysia. (15 marks)

(b) If you plan to purchase a new house now and took on a loan to finance it, will the increase in the overnight policy rate make you change your mind? Discuss. (10 marks)

(Total: 25 marks)

QUESTION 2

a) What is Quantitative Easing? How do the central banks execute quantitative easing during the credit crunch? (12 marks)

b) The following is the financial information for the world's leading bank Industrial and Commercial Bank of China Ltd. (IDCBY) in the year 2022.

Assets	Market Value (RM)	Rate (%)	Assets Durations (years)	Liabilities & Equity	Market Value (RM)	Rate (%)	Liabilities Duration (years)
Cash	500			Transaction deposits	350	2.5	1.943
Credit Card Loan	600	6	1.250	Negotiable CDs	750	2	1.500
Housing Loan	400	8	5.650	Money market borrowings	400	4.5	3.500
Municipal bond	150	4	7.250	Stockholder' Equity	150		
Total	RM1,650			Total	RM1,650		

(i) Calculate the weighted-average duration of IDCBY's assets portfolio and liabilities portfolio? (6 marks)

(ii) Estimate the IDCBY's duration gap model to hedge the interest rate risk. (3 marks)

Continued ...

(iii) Suppose that interest rate were 8 percent and then rise to 9 percent. The bank managers want to know what will happen to the change in value of IDCBY's net worth. (4 marks)

(Total: 25 marks)

QUESTION 3

a) While in theory the required reserve ratio could be a useful tool in the conduct of monetary policy, why it is seldom used as a monetary policy tool in reality? (9 marks)

b) The following information provides the Maybank Berhad's balance sheet data in the year 2022:

Bank Assets		Bank Liabilities	
Items	RM	Items	RM
Statutory Reserve	500	Money Market Deposit	3,800
Derivatives Trading	2,600	Fixed Deposits	6,780
Deposit held at Hong Leong Bank	3,700	Subordinated Debt	1,250
Allowance for Loan Loss	(300)	Common Stock	920
Collateralized Mortgage Obligation	1,500	Surplus	200
Business Loans	1,300	Retained Earnings	150
Credit Card Loans	2,100		
Municipal Bonds	1,700		
Total	RM13,100		RM13,100

(i) Calculate the total risk-weighted assets of Maybank Berhad. (10 marks)

(ii) Explain whether Maybank is subject to BASEL III regulatory restrictions in light of its Tier 1 core capital adequacy status? (6 marks)

(Total: 25 marks)

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QUESTION 4

(a) Briefly explain what is bank run, and how architecture may have been used to avoid bank runs? (10 marks)

(b) Hong Leong Bank Berhad has recorded the following financial data for the year 2022:

Assets	**RM**	**Rate**	**Liabilities & Equity**	**RM**	**Rate**
3-months Treasury bills	3600	7%	Repurchase agreement	2300	9%
Real estate loan at fixed rate	1800	9%	Fixed deposit account	1900	7%
Reserves at Bank Negara Malaysia	600		Equity capital	1800	
Total	6,000			6,000	

(i) What will happen to the Hong Leong Bank Berhad net interest income and net interest margin if the interest rate and portfolio composition remain constant during the year 2022? (8 marks)

(ii) What change would occur in the net interest income and net interest margin if the entire yield curve increased by 2 percent during the year? (7 marks)

(Total: 25 marks)

End of Paper